

Statesman Journal/StatesmanJournal.com

OPINION

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OUR VIEWS

Recession presents chance for courage

Legislators must learn from, not repeat, mistakes of the '82 session.

Oregonians can be thankful that this recession isn't as deep as the one in 1982, or as disproportionately cruel to rural residents.

But that decades-old crisis, outlined in today's Statesman Journal, has lessons for our time.

As lawmakers and the governor prepare for a special legislative session to erase a deficit of \$700 million or more, they should pay attention to them.

In 1982, legislators floundered for weeks while the deficit grew worse. Then-Gov. Vic Atiyeh, a fiscally conservative Republican, took a bold step: He proposed an income tax increase and a reduction in property-tax relief to augment the deep cuts being made. Lawmakers supported him, despite risk to their careers.

Similar political courage is needed in 2002. The bill has again come due for years in which Oregonians clamored for the impossible combination of new programs and lower taxes.

A great part of the solution will have to come from cuts to schools, human services and corrections. The rest must come from new revenue to replace income taxes that have evaporated along with jobs.

Legislators must look for that money in the present rather than bequeath the problem to future leaders.

In 1982, legislators succumbed to that pitfall by raiding reserves of the State Accident Insurance Fund, the state-owned workers' compensation

insurer. That quick fix, later ruled illegal by the courts, cost far more than it was worth by the time it was repaid.

In 2002, lawmakers face similar temptations: postponing a state payment to schools and dipping into the Common School Fund, whose earnings have supported education since pioneer times. That proposal, from a bipartisan committee of legislative leaders, simply defers the problem for another day.

Gov. John Kitzhaber's alternative is to postpone a tax cut for well-off Oregonians and raise taxes on cigarettes, beer and wine.

Although both ideas face opposition, they at least ask today's residents to pay for today's needs. Oregonians should not dismiss them out of hand.

One lesson that Oregonians clearly didn't learn during 1982 is the need to put aside money for a rainy day. We survived that crisis and went on to a decade of prosperity in the 1990s. Incomes rose, tax collections climbed, and we spent every dollar or refunded it to taxpayers.

Now, we're remembering why it's prudent to save money during flush times. Forty-seven other states have such funds, with good reason.

With our attention focused, we must try again to start a stabilization fund for schools. Kitzhaber suggests using lottery proceeds and a 1 percent tax on real estate transfers. If people have other solutions, they should put them on the table.

Otherwise, in 2022, lawmakers will look back on this year and wish we had learned from our predecessors' mistakes.

Statesman Journal

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SERVING OREGON'S CAPITAL AND THE MID-VALLEY

★

Oregon's last Republican governor reflects on the office

Vic Atiyeh says he helped the state survive a recession.

BY RICHARD R. AGUIRRE
Statesman Journal

Victor G. Atiyeh was Oregon's 32nd governor since statehood. He served two decades in the Legislature before his governorship.

He was the state's last Republican governor — and one of the best, according to Oregon Labor Commissioner Jack Roberts.

When he launched his own campaign for governor earlier this month, Roberts said, "We've not had a governor since Vic Atiyeh who has tried to manage the state, to really take charge of the executive branch."

Inside

INTERVIEW: Atiyeh talks politics. **3C**

Atiyeh beat legendary Gov. Tom McCall to capture the Republican primary in 1978. In the fall, Atiyeh beat Democrat Bob Straub.

Atiyeh was governor during a time of economic turmoil. Half the state's timber mills were closed or slowed production and unemployment topped 12 percent. He called the Legislature into special session four times to rebalance the budget.

Although proud of his leadership during the crisis, Atiyeh told the Statesman Journal that McCall was a tough act to follow.

"Tom McCall — I said

many times while he was alive, in his presence and not in his presence — will go down in history as one of the great governors in Oregon," Atiyeh said.

McCall was eloquent, tenacious and pushed good ideas, even if they were controversial, Atiyeh said. That included the bottle recycling bill and land-use planning.

Still, Atiyeh says his own administration also was effective.

"I think the state survived the recession really quite well because I was there. The economy of the state was diversified," he said. "I never felt I was in his shadow. I wasn't trying to be a Tom McCall because I'm not one. I'm Vic Atiyeh."

Statesman Journal

Legislature

PAGE
3C

MONDAY, MARCH 26, 2001

LOOKING BACK, MOVING FORWARD



JAY REITER / Statesman Journal

RADIO: Former Gov. Vic Atiyeh talked about politics, past and present, in an interview that will air today on public radio.

Former governor speaks out

Vic Atiyeh talks in an interview about term limits and criticism.

Statesman Journal

Victor G. Atiyeh was Oregon's governor from Jan. 8, 1979 to Jan. 12, 1987, tying him for the state's longest gubernatorial tenure.

He served after Gov. Bob Straub and before Gov. Neil Goldschmidt.

Although he was governor during an economic recession, Atiyeh said he helped improve social service programs, worked for increased international trade, supported the state's land-use laws and pushed for tax reform.

Atiyeh, 78, reflected on his service, discussed how he and his wife, Dolores, dealt with criticism and commented on the 2001 Legislature during an interview with reporters and editors. Excerpts:

Question: Why are you opposed to annual sessions of the Legislature?

Answer: If there's any hope at all for what's called a "citizen legislature," it'll be wiped out with annual sessions. It's bad enough now in the face of term limits, which wiped out experience and institutional memory, leaving it to the bureaucrats to run because they'll always be there.

There really isn't any need for annual sessions. We have all the tools available to stay in session until we make the decisions and either the Legislature or the governor can call special sessions if there's really an emergency.

Q: What advice would you give Republican gubernatorial candidates?

A: I certainly treasure the title of governor, but I'd be willing very much to give up the title of the "last Republican governor." I'm ready for that, anytime now.

I tell them to get organized. What wins an election is good organization, lots of volunteers and having a campaign plan that you do not deviate from. The first time that comparison came

On the radio

To hear the full interview with former Gov. Vic Atiyeh, tune in to KOPB Radio (91.5 FM) at 1 p.m., today, or KOAC (550 AM) at 9 p.m..

to me was the Bush-Dukakis campaign. (George) Bush clearly had a campaign plan; he stuck to it and went all the way, and he won. (Michael) Dukakis kept changing his every week.

Q: To balance the budget, should the Legislature use money intended to go back to taxpayers as income tax refunds?

A: In balancing the budget, there's two ways to do that. One is, of course, to raise money. And the other is to cut budgets. There's not one way to do it; there's two ways to do it. And as I've watched how government operates today, I think there is room to cut some budgets.

Q: What would you cut?

A: Well, it probably is almost unfair, because you have to be there to do it, but there's some little things that are more of a style and that would lead you somewhere. They're not very large (cuts), but they have some meaning.

I mentioned earlier to someone here that every time there's a problem and there's a response from the governor's office, it's the governor's adviser for whatever it is. This happens all the time. I said, "How many advisers does he have? He has an adviser for every subject that comes up." Why do you need that many advisers? I don't know that. It's a good question to ask. And they're getting paid, incidentally.

I think really the Legislature itself can operate with less of a staff than it has at the present time.

A story: I was with a group that met annually and had a good time for a weekend, and they had a poker game — small game and a big game. So I said one day, "Well, I'll get in the big game."

So I won a few hands and pretty soon, I can remember, somebody said, "I'll bet \$5." There was a chip here. And I said, "Well, I'll see your \$5 and I'll raise you \$5." And then, I said, "What in hell am I doing?" If that were a \$5 bill I wouldn't let go of

it. But it was a chip, so it wasn't real money. That's the way I think many people think of the tax dollar today.

Q: Republican candidates Denny Smith and Bill Sizemore lost to Gov. Kitzhaber. Have Republican candidates failed in recent statewide races because they are too conservative for voters?

A: It's true that both Denny and, particularly, Bill Sizemore had very large speed bumps out there in terms of their election. They had some hurdles to get over, Denny less so than Sizemore. But nonetheless, it's true what you just said.

However, when you look at Norma Paulus and Dave Frohn-mayer, those were entirely different cases, and we lost those. Certainly, for Dave Frohn-mayer, the ultraconservatives actually beat Dave. It wasn't that he lost the race to Barbara Roberts, but the fact is that the other candidate in there swiped the votes that would have had Frohn-mayer as our governor.

Norma ran a great campaign; she just happened to lose the race. So that didn't have anything to do with conservative or liberals. As a matter of fact, Norma would certainly be considered maybe on the liberal side of moderate.

But yes, you're right. Matter of fact, I would say to you that we should have done better than Sizemore, but people have to make their own decisions about running for office. There are several that I think would have made good candidates. I'm not going to tell you who it was. And they just backed off.

Incidentally, I want to tell you this: Denny Miles was a good media adviser. He said, "There are three answers you can give the media when they ask a question. One is, 'I know and I can tell you.' One is, 'I don't know, but I'll find out.' And the other is, 'I know, but I'm not going to tell you.'"

It's this last one that drives you nuts. But it was so much fun because they'd keep asking the question from different angles. And I said, "I know what you guys are doing. I already told you I'm not going to tell you."

Q: Is fundamental tax reform possible?

A: So far, no. I talked to Gov.

Roberts. And I said to her, "Barbara, people don't think there's a problem out there." They were trying to find a solution to Ballot Measure 5 at that point in time. And I said, "Oregonians don't think there's a problem. You have to tell them there's a problem and get them to understand there is one, and they have to agree to it before they're going to vote for anything."

Even today, they don't think there's a problem. So as long as they don't think there's a problem out there, there's no hope for any change in taxation.

Q: You traveled overseas frequently to promote international trade while you were governor and you were criticized for this. How did you deal with that criticism?

A: I knew it was something that needed to be done, so I did it. They didn't know there was something that needed to be done, so they criticized me. Many take credit for it now that we're successful. That's all right.

They criticize you. It didn't bother me. It didn't hurt me. Dolores got upset from time to time. I told her many times, "Honey, don't worry. When they really take shots at me, they'll say nice things at my funeral. So don't worry about it."

Q: What do you think of term limits? Have they changed governance?

A: Someone came to be before the last election and said they wanted to have my support for a ballot measure that would extend the years that legislators could serve. I said, "No. I don't want to repair something that I dislike. If you come to me with a measure that's going to repeal term limits, I'm there."

It was incredible what the people of Oregon and the Legislature lost. And, as I said earlier, what's really going to happen is bureaucracy is really going to run government because they're the only ones that have any experience. The rest come and go.

People are elected to make these decisions. We didn't elect the bureaucrats to make the decisions. So, if somebody comes to me and says "We want to repeal it," I'm there right now. And I think we make good arguments for doing it."

Best wishes for a popular 'twit'

Former Gov. Vic Atiyeh, a Capitol press corps favorite, is in St. Vincent Hospital in Portland. He's been there since Sunday.

That's the bad news. The good news, said Denny Miles, Atiyeh's press aide when he was governor, is that Atiyeh "is doing well and should be going home in a day or two."

Ironically, descriptions of what appears to be bothering the 72-year-old ex-governor are very unlike the plain-talking former governor. Instead of saying Atiyeh had a heart attack, his doctors are describing it as "a heart incident." He's undergone angioplasty, a surgical procedure designed to repair and unclog blood vessels.

The point here isn't about labels on medical procedures, particularly as we move closer to a holiday season that involves a favorite charity of Atiyeh's, the Pompous Twits Anonymous. The Twits are politicians, lobbyists, bureaucrats and newsies who've been identified in this column over the years for having been caught in acts of pomposity. But they rise above these shortcomings to help needy children at Christmas. It's a small penance we pay.

Atiyeh was a charter member of the Twits, making some of the early deliveries of clothing, food stuffs and toys to needy children.

The real tale about Atiyeh's popularity with the Capitol press corps can be told in one word — access. But I'll elaborate anyway.

In Atiyeh's two terms as governor from 1979 to 1987, he held hundreds of press conferences. But a lot of governors have held press conferences, some more than others. They're pretty much the dog and pony shows of political office.

What made Atiyeh different from his predecessors and those who've followed him in the governor's office was his willingness to return a reporter's telephone calls as soon as possible. Now that isn't so hard when the news is favorable. But Atiyeh returned all calls, no matter how unpleasant it might be for himself or his administration.

By comparison, Atiyeh's successor, Neil Goldschmidt wasn't nearly as accessible, although he had an aggressive press office that made up for some of this shortcoming. Barbara Roberts went completely the other way, exhibiting a bunker mentality that put her media office behind a locked door.

The best example of Atiyeh's accessibility came in the closing months of his administration. Atiyeh



Commentary

Ron
Blankenbaker

revealed some not particularly favorable details about his administrative style in a speech he delivered in Phoenix, Ariz.

Atiyeh didn't know when he spoke with such candor in Phoenix that an Associated Press reporter was in the room. A story was filed, and by that evening, every news organization in Oregon wanted his reaction.

Atiyeh answered every call that night, knowing full well that he wasn't going to be presented in a favorable light. But he did that, returning the telephone messages in the order he'd received them, long into the night.

That's why at the close of Atiyeh's last press conference there was a little ceremony. Charles Beggs, an Associated Press reporter and president of the press corps at that time, presented the governor with a plaque. The plaque commemorated Atiyeh's accessibility, something that was unprecedented in the memory of statehouse reporters. Even more unusual, the reporters paid for the plaque out of their own pockets.

Beggs is a man of many words, but all of them written. He's no speech maker. But he made a little speech when he presented Atiyeh his plaque.

"I've covered three governors and you've been the most accessible. And that includes Tom McCall," Beggs said. Atiyeh's eyes watered. It ended the press conference.

So, get well, Vic. We're looking forward to another demonstration of your accessibility at the December Pompous Twits Party.

□ Ron Blankenbaker is a Statesman Journal writer. His column appears regularly. You can call him at 399-6615 or write to him at the Statesman Journal, P.O. Box 13009, Salem, Ore. 97309.

Surviving tough times

The idea of repeating lengthy special budget sessions spooks lawmakers.

BY STEVE LAW
Statesman Journal

It was 7 a.m. on a frigid winter day, and a throng of people already was lined up at Salem's Union Gospel Mission.

By day's end, 2,800 men, women and children endured long waits in sub-freezing temperatures to take home free 5-pound blocks of processed American cheese.

That scene could have played out last week as Oregon's recession threw more people out of work and threatened deep cutbacks to state government services.

Instead, it was early 1982 and Oregon was stuck in its worst economic slump since the Great Depression. Interest rates spiked close to 20 percent, crippling Americans' ability to buy or remodel homes. Sawmills and plywood plants, the lifeblood of small-town Oregon, canceled shifts or shut down entirely, many of them for good.

Coleen "Cookie" McLean of Dallas remembers losing her job as a panel patcher on the graveyard shift at Boise Cascade's Independence plywood mill.

"We only got like a five-day notice," said McLean, now 51. "It was right before Christmas, and we walked in and it was posted. There was no severance pay. Nothing."

SEE SPECIAL SESSION / 4A



TIM LaBARGE / Statesman Journal

JOBLESS: Coleen "Cookie" McLean of Dallas has felt the effects of slow economies twice. In the early 1980s she was laid off from the Boise Cascade mill in Independence; in 2000, she was laid off from the Willamette Industries Dallas plant (pictured). McLean now works at the Woodburn Transition Center, where she helps others who have lost their jobs.



Budget challenge

Today's state budget deficit is comparatively smaller than the one faced by lawmakers two decades ago. But other factors could make the upcoming session more difficult:

Term limits have stripped the Legislature of much of its expertise and leadership.

Term limits also eroded leaders' authority, along with their ability to corral votes from their party caucuses.

The tax limitation movement is stronger, and can use paid signature-gatherers to put any tax increase on the ballot.

There is a stronger no-new-taxes sentiment among lawmakers of both parties.

Tax increases now require a 60 percent majority in both chambers, not just a simple majority.

Campaign spending is higher now, and lawmakers now are able to collect donations from interest groups during legislative sessions.

Schools are more dependent on state money, creating more dislocation if aid is reduced.

Cities and counties are restricted from raising property taxes, and thus more dependent on state disbursements.

The state mailed "kicker" income tax rebate checks to Oregonians last fall, making it tough to convince citizens the state is in dire financial straits.

Lessons of 20-year-old fiscal crisis

SPECIAL SESSION

CONTINUED FROM 1A

Tens of thousands of Oregonians survived on unemployment or welfare in place of paychecks. State tax collections nose-dived, sending shudders through Salem's state government work force.

Lawmakers were recalled to the Capitol on Jan. 18, 1982, to patch a \$240 million hole in the \$3.2 billion state budget. It was to be the longest special legislative session in Oregon history and one of the most acrimonious. Legislators would return for two more special sessions by summer's end, as the economy and state revenues kept sliding.

Now Oregon is in another recession, suffering the nation's highest jobless rate.

"They just keep moving the jobs overseas," said McLean, who was laid off a second time, 20 years later, from Willamette Industries' Dallas plywood mill. "The cannery jobs and mill jobs are gone."

And once again, lawmakers are being summoned to Salem to fill a big budget hole. This time it's a \$700 million shortfall in a \$12.3 billion budget — a gap that could mean fewer teachers in school classrooms, canceled university programs, lost services for the sick and destitute, and fewer cells to house prisoners.

Most current state lawmakers have never cut budgets before or voted to raise taxes. For many, the special session scheduled for Feb. 8 is the most daunting challenge of their political careers.

The Statesman Journal sought out veterans of the 1982 budget wars, to learn what lessons the last generation of political leaders might pass on to current lawmakers.



Atiyeh



McCormick

What's next

Gov. John Kitzhaber has summoned the Legislature to return to Salem on Feb. 8 for a special session to rebalance the state budget. Lawmakers face a \$700 million shortfall in the current \$12.3 billion budget.

Advance deal elusive

Oregon's economy — and state revenues — were sinking fast in the early '80s. Projections showed the state would be 7.5 percent short of paying for its 1981-83 budget. But six months of the two-year budget cycle already had elapsed. Each passing day meant a smaller pie to slice.

Republican Gov. Vic Atiyeh said he "tried quite diligently" to reach a budget deal with lawmakers in advance, but to no avail. Floor votes to cut budgets or raise taxes could decide the political fate of senators and representatives up for re-election later that year.

Lawmakers also had immersed themselves in hands-on budget-cutting during a 1980 special session and the 1981 regular session, said Pat McCormick, then chief of staff to House Speaker Hardy Myers, D-Portland. "Members felt that they had the right to be involved in discussing the full set of budget options."

A back-room deal between Atiyeh and a handful of legislative leaders was impossible. "I just think we had to go through that kind of wrenching process," Atiyeh said.

The governor was convinced he had to get something on paper for lawmakers to debate. Atiyeh's proposal: a \$120 million cut in state agency budgets, beer and wine tax hikes, and other ideas.

Democrats balked at cutting that much. In the Senate, where Democrats held a 22-8 majority, leaders demanded a temporary income tax increase to minimize agency cuts.

Myers led a fractious 33-27 House majority, including several conservative Democrats at odds with the party liberals. He couldn't muster a majority to raise the income tax or pass an alternative plan to find money by cutting the state's property tax relief program.

"The problem was getting people who said, 'I don't want to cut that,' and somebody else saying, 'I don't want to cut that, but I do want to cut this,'" recalls then-House Majority Leader Grattan Kerans, D-Eugene. "We didn't have an ironclad agreement going in, and it just spread out like water on a table."

Deficit worsens

Twenty-three days into the special session, lawmakers were stuck. Then a bombshell dropped: New economic projections showed the deficit would jump another \$100 million. That meant the state was 10.5 percent shy of covering its two-year budget. With seven months now elapsed, there was an even smaller pie left and more slices to remove.

In disarray, the Legislature recessed for six days.

Atiyeh, also up for re-election, then made a bold turnaround. When lawmakers returned, the Republican governor said he wouldn't seek greater agency cuts. Rather, he proposed an income tax increase and a reduction in property tax relief.

"Vic Atiyeh was very good in all of this," said Richard Munn, then the Legislature's chief tax analyst. "He was trying to propose a balance and involve legislative leaders."

House and Senate Democrats still couldn't agree on what tax increase to pursue, and still couldn't stomach the full amount of cuts backed by Atiyeh. Senate Democrats stood

firm against tinkering with property tax relief, fearing it would give ammunition to the property tax limitation movement, said John Powell, then a Democratic senator from Halsey.

Worn out and anxious to begin re-election campaigns, lawmakers finally settled on \$87 million in agency cuts and a 7.9 percent income tax surcharge, among other solutions.

"When you know what needs to be done and you want to be part of the solution, you do it — although you pay a price," said Mary Burrows of Eugene, one of four Republicans who joined with 27 House Democrats to pass the income tax surcharge.

The record-shattering 37-day special session was over.

Smoother sessions

But Oregon's economy continued its tailspin. As summer began, several hundred people showed up at a Salem restaurant trying to fill 30 minimum-wage jobs. Some 378 people turned in applications. Others were told to come back when more applications would be printed.

New economic projections revealed the special-session fix wasn't enough. There was another deficit, of \$101 million.

Desperate to avoid another public relations fiasco, Atiyeh and legislative leaders swiftly crafted a deal. They agreed to additional state agency cuts and more tax increases, including a reduction in property tax relief.

The deal was sealed in a one-day session in mid-June.

By summer's end, dwindling tax collections forced lawmakers back to Salem a third time, to address a new \$87 million deficit. Atiyeh took the lead and proposed taking the money from reserves piled up by the Salem-based State Accident Insurance Fund. SAIF Corp. is a state-owned workers' compensation insurer.

Elections were fast approaching, and lawmakers adopted Atiyeh's proposal in another one-day session in early September. Though courts would later force the state to repay the money to SAIF with interest, Atiyeh and others insist it was the right thing to do.

"We had some strong legal advice from the attorney general's office and from some other attorneys," Atiyeh said.

By the time the three sessions were over, lawmakers had erased a cumulative deficit of 16.6 percent. They wound up raising revenues by \$306 million and lowering spending by \$224 million.

Lessons for 2002

The mantra of those who endured the 1982 sessions is to iron out a deal in advance, to the extent possible.

"Get an agreement going in, and for heaven sakes, respect your leaders," said Paul Hanneman, then the House Republican leader. "If you can't follow a leader, you may as well have anarchy in the Capitol."

If one critical floor vote fails, a special session can easily unravel, Hanneman said. "It only gets worse before attrition or anemia sets in."

Veteran state officials have other suggestions for solving the budget crisis:

■ Atiyeh cautions lawmakers to avoid getting sidetracked with unrelated bills.

■ He also urges lawmakers to make selective cutbacks rather than across-the-board reductions. For people on welfare or barely getting by, even a 2 percent cut "is going to be just brutal," Atiyeh said.

■ Jon Yunker, the state budget officer in 1982, cautions lawmakers against raising taxes at the onset of a fiscal crisis. He reasons that Oregonians still haven't experienced any of the pain from cutbacks in state services.

"If this goes on for another year or more, I think then you'd start to (hear) people say, 'When is enough... enough?'"

■ Jeff Gilmour, then a Democrat from Jefferson serving as House budget committee chairman, recommends lawmakers leave a large cushion of reserves when they rebalance the budget. That could avert the need for another special session if the economy worsens. If a \$100 million deficit emerges with only a few months left in the budget cycle, options become very limited for filling the hole, Gilmour warned.

■ John Schoon, a former Republican House member from Rickreall, urges legislative leaders to keep their caucuses fully informed of high-level talks and budget-balancing options. He served on the House Revenue Committee, which handled new money ideas, but was in the dark about budget-cutting ideas under discussion among Ways & Means leaders.

■ Grattan Kerans, the former House majority leader, urges lawmakers not to borrow money to solve today's deficit. "Don't use your credit card," he said. "You can't borrow your way to fiscal health."

■ Atiyeh suggests that all options should remain on the table, though he agrees a tax hike should be well down the list.

"I find no fault with that, as long as it's on the list. But if we need to do it, we should go ahead," he said.

■ If lawmakers do turn to taxes, they should do so based on people's ability to pay, advises John Powell, then a Senate Democrat from Halsey. Applying a tax to the broadest category of taxpayers will ease each individual's tax burden, he said, and assure it won't unduly hurt those who can least afford it.

■ Finally, Schoon advises lawmakers not to make blanket statements against new taxes, in case that grows necessary later. "Sometimes you just can't let things go down," he said.

Statesman Journal reporter Peter Wong contributed to this story.

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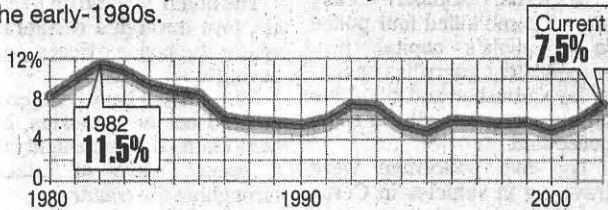


Statesman Journal file

SHUTDOWN: Employees work at the Pictsweet Mushroom plant east of Salem. Pictsweet phased out production last November. Today, Oregon has the highest jobless rate in the country.

Oregon jobless rate

Oregon has the highest unemployment rate in the nation, but it's not nearly as bad—at least yet—as in the early-1980s.



Source: Oregon Employment Department

KAY WORTHINGTON/Statesman Journal

“The problem was getting people who said, ‘I don’t want to cut that,’ and somebody else saying, ‘I don’t want to cut that, but I do want to cut this. We didn’t have an ironclad agreement going in, and it just spread out like water on a table.’”

Grattan Kerans; D-Eugene
Former House Majority Leader

Area mill closures in early 1980s

YEAR	OWNER	TYPE OF PLANT	CITY	JOBS LOST*
1980	Brand-S Corp.	plywood	Corvallis	219
1980	Aalsea Lumber Co.	sawmill	Aalsea	25
1981	Bohemia	sawmill	Brownsville	60
1982	Willamina Lumber Co.	sawmill	Sheridan	30
1982	Boise Cascade	plywood	Independence	276
1982	Boise Cascade	plywood	Camp Adair	180
1983	Boise Cascade	plywood	Valsetz	269
1984	Mt. Jefferson	plywood	Lyons	35
1984	Stayton Lumber	sawmill	Stayton	92
1984	Georgia-Pacific	plywood	Toledo	238
1984	3-G Lumber Co.	sawmill	Harlan	18
1985	Willamette Industries	plywood	Griggs	131
1985	Champion International	veneer	Idanha	75

*Other mills suffered job losses due to temporary closures or reduced shifts

Source: Western Council of Industrial Workers, Portland

Timeline: Remembering 1982 sessions

"We will have to cut deeper before we can convince others to raise taxes or cut tax relief. They are worried about re-election."



Sen. Keith Burbidge
D-Salem

"I gave them my list. Where's their plan? If they have a plan, they should pass it."

Gov. Vic Atiyeh

"They've got this process in a stranglehold."



Rep. Vera Katz, D-Portland, on the clout of the education lobby

Jan. 18, 1982

Gov. Atiyeh opens special legislative session to fix a \$240 million budget shortfall. He proposes a \$120 million, 10 percent, cut in state agency spending, doubles beer and wine taxes, speeds up employer withholding payments and cracks down on delinquent taxpayers.

■ 1981 ends as worst year in homebuilding industry since 1945. Oregon's jobless rate hits 11.4%. In five timber-dependent counties, it's more than 20%. Unemployment rate is 8.9% nationally, 10.4% in Marion and Polk counties.

Jan. 22

As an alternative to the Atiyeh plan, majority Democrats in the House propose a one-year 5 percent income tax surcharge.

■ Bank prime lending rate rises to 16.5%; Home loans still unaffordable for many.
■ Ray Phillips of Oregon Taxpayers Union gathers signatures to put 1.5% property tax limitation on Oregon ballot.

Jan. 27

The Democratic-controlled Senate, willing to approve only \$63 million in agency cuts, handily defeats Atiyeh's \$120 million in agency cuts, but lacks overall budget-balancing alternative.

Jan. 29

House Democrats lack the votes to put their 5.25 percent income tax surcharge on the floor. Holdouts include young Rep. Peter Courtney, D-Salem, and future House Speaker Vera Katz, D-Portland.

Feb. 3

House turns down a 4.25 percent income tax surcharge, and an alternative plan to raise taxes by reducing property tax relief.

■ Home mortgage interest rates fall in January for third month in a row, to 17.33%.

Feb. 6

Senate passes the income tax surcharge.

■ On Feb. 6, President Reagan sends Congress budget calling for record deficits from 1982 to 1984, one year after promising a balanced budget by 1984.

Feb. 8

House rejects Senate plan by voice vote.

Feb. 9

Session enters its 23rd day, tying all-time record for special sessions set in 1967. Dismal economic numbers show deficit ballooned by \$100 million. Legislature recesses for six days to reconsider options. Atiyeh proposes economic recovery package: tourism promotion, improving university high-tech programs, business development loans.

■ Jobless Oregonians qualify for 13 weeks more unemployment checks, extending maximum to 52 weeks.

■ At 7 a.m. Feb. 10, with 15 degree weather, line forms at Salem's Union Gospel Mission for free 5-pound blocks of processed cheese from federal government. Several hundred waiting in line as doors open at 9 a.m. Line stayed that long until noon.

Feb. 15

Shortfall officially pegged at \$337 million. Atiyeh says he won't propose more than \$120 million in state agency cuts.

■ Oregon timber counties told to expect 60 percent fall in O&C revenues in 1982, money they depend on in lieu of property taxes. Polk County relies on O&C money for 34.3% of its budget.

Feb. 17

Atiyeh's new plan proposes tax hikes to cure ballooning deficit: \$37 million income tax increase for middle- and upper-income Oregonians, \$35 million reduction in property tax relief, \$120 million in agency cuts, \$21 million less in school aid, doubled beer and wine taxes.

■ Oregon undergraduate college tuition now highest in 13 western states.

Feb. 20

Impatient rank-and-file Democrats and moderate Republicans, meeting at Portland's Mallory Hotel, forge a compromise plan: \$83 million in agency cuts; 4 percent income tax surcharge to raise \$40 million; cut \$40 million from property tax relief; 3-cents-a-pack hike in cigarette tax, doubled beer and wine taxes.

Feb. 22

Prodded by "Mallory Group," which includes Peter Courtney, House OKs 3.9 percent income tax surcharge, \$44 million cut in property tax relief, 3-cent cigarette tax hike.

■ On Feb. 22, the Dow Jones Industrial Average falls to 21-month low of 811 points.

Feb. 26

Senate refuses to go along with House plan to reduce property tax relief.

Feb. 27

House and Senate, with no votes to spare, agree on 7.9 percent income tax surcharge.

March 1

Special session ends after record 37 days. Final deal: one-year, \$75 million income tax hike, \$87 million in agency cuts, \$16 million in reduced school aid, \$15 million lopped from emergency fund, \$68 million raised from sped-up employer withholding, 3-cent cigarette tax hike, \$24 million raised from crackdown on delinquent taxpayers, selling off excess state liquor. Deal means 2 percent less state school aid, 4.5 percent less for community colleges and 5 percent less for universities.

■ On June 13 and 14, more than 500,000 people in New York's Central Park call for a nuclear weapons freeze in the largest demonstration in U.S. history. 2,000 demonstrate in Salem.

June 14

Second special session opens, as failing economy causes a new \$101 million deficit. It's the first time since 1933, and the second time in history, that more than one special session is needed in a year. Lawmakers agree in one day to a deal crafted by Atiyeh and legislative leaders: extend income tax surcharge, \$10 million more in agency cuts; \$13 million more in reduced state school aid; \$30 million reduction in property tax relief, \$21 million cut in state payroll.

■ On June 14, a reopened King's Table fast-food restaurant in Salem takes applications for 30 minimum-wage jobs. 378 people got applications before the restaurant ran out of forms; others were told to come back later.

Aug. 31

Declining economy leads to a new \$87 million deficit. To prepare for a third special session, Atiyeh proposes taking \$81 million from SAIF reserves and a \$10 million reduction in property tax relief.

Sept. 3

In a passionate speech opening a third special session, Atiyeh says further agency cuts and eliminating property tax relief would "rend the fabric of society." Lawmakers enact Atiyeh's SAIF plan and finish in 10 hours.



"The Senate has drawn the line, and that's it! We're not going to put state government on the chopping block."

Senate President Fred Heard, D-Klamath Falls, after a showdown vote in the House on agency cuts

"This is clearly illegal."



Sen. Ted Kulon-goski, D-Junction City, Atiyeh's 1982 rival for governor, on the SAIF raid

■ NOTE: Timeline photos date from the early 1980s.

Past decisions haunt Oregon lawmakers

State leaders disagree on how to balance services and tax relief.

BY PETER WONG
Statesman Journal

As they closed the 1979 legislative session, lawmakers were convinced they had solved two of Oregon's biggest problems — soaring property taxes and high state income taxes.

Using surplus income taxes, they promised to pay 30 percent of every homeowner's property tax bill up to a maximum of \$800. They hoped the program would provide needed relief — and head off efforts to limit property taxes statewide.

Lawmakers also agreed to refund future surpluses of income taxes by including an automatic trigger that became known as the "kicker."

Gov. Vic Atiyeh said it was too generous compared with his own proposal, but let it become law without his signature. Voters ratified the tax relief package by a 9-to-1 majority in May 1980.

Tony Van Vliet of Corvallis was among the few lawmakers who opposed it.

"A lot of our colleagues were firm in their belief that everything that went up would keep going up — and that money coming in amounts more than we needed ought to go back to taxpayers," said Van Vliet, a Republican who left the Oregon House in 1995 after 20 years. "At that time, that did not seem too unreasonable."

But the first decision came back to haunt legislators during the early 1980s — Oregon's worst economic downturn since the Great Depression. Lawmakers were forced to cut property tax relief, state aid to public schools and state agency budgets — and raise taxes — during a record-setting regular session and four special sessions in 1981 and 1982.

The second decision has come back to haunt legislators during the current recession.

"What it reveals is the fundamental inability of our tax system to support what I would argue is the single most important investment we can make — public education."

Gov. John Kitzhaber



They face a projected budget shortfall of more than \$700 million — after having refunded \$250 million in income taxes a couple of months ago, and more than \$1 billion this decade, through the kicker.

"The kicker was a sop to the advocates of a tax limit," said Fred Heard, a Democrat who was Oregon Senate president in 1981 and 1982. "But it was a big mistake."

Voters put the kicker into the Oregon Constitution in 2000, making it even harder for the Legislature to use the surplus during economic downturns.

Sen. Lem Hannon, R-Ashland, is one of only five current legislators remaining from that era. Hannon, who has served 28 years, also is the only incumbent left who voted against the 1979 law.

Paraphrasing U.S. philosopher George Santayana, Hannon said, "If you have not learned from history, you are doomed to repeat it."

In the two decades since, legislators failed to create a "rainy-day" reserve fund, which 47 other states have.

Gov. John Kitzhaber, a Democrat who was a representative from Roseburg in 1979 and a senator in 1981, said a reserve fund of any amount would have made some of today's decisions easier.

"The tide has gone down and a lot of boats are up on the beach," he said. "What it reveals is the fundamental inability of our tax system to support what I would argue is the single most important investment we can make — public education."

Last week, Kitzhaber renewed his call for a "school stabilization fund," this one funded by lottery



Courtney



Hannon

proceeds and a real estate transfer tax.

But Atiyeh, a Republican who was governor 20 years earlier, called a reserve fund "a bad, bad move."

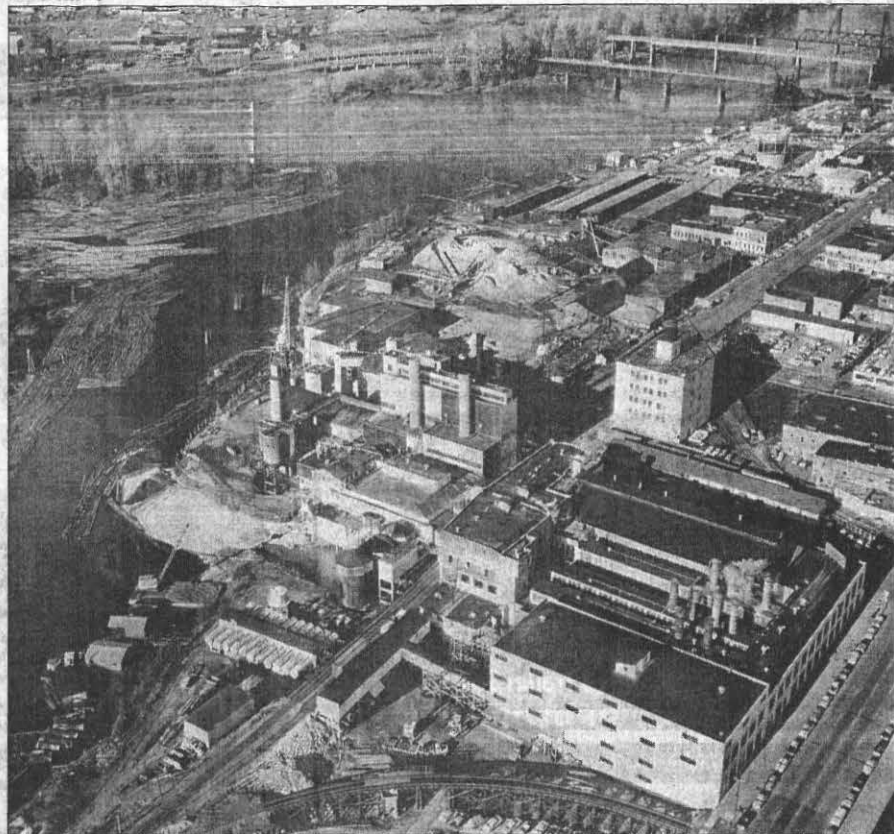
"I cannot conceive of why anyone would consider mothballing money," said Atiyeh, who left the governorship in 1987. "We should have a prudent ending balance for the budget. If things get bad enough, you can call a special session."

Hannon disagrees.

"But it is hard to convince colleagues that salting away money in good times is prudent for bad times," said Hannon, co-chairman of the 2001 Legislature's budget panel. "The tendency is to spend it all."

Legislators also chose in the booming 1990s to rely on the growth of income taxes to increase aid to public schools after voters limited property taxes in 1990 and 1996. The state already relies on income taxes to pay for higher education, human services, public safety and other state programs.

They did not create an alternative source to pay for schools, which now get 70 percent of their money from the state and 30 percent from property taxes — the reverse of what it was in 1990. The share of school aid in the



Statesman Journal file

SALEM CLOSURE: Boise Cascade's Salem pulp and paper mill, shown in 1958, closed in June 1982 during Oregon's worst economic downturn since the Great Depression. The closure was prompted by declining demand for paper and the increased costs of operating the 62-year-old mill. Riverfront Park now occupies much of the site.

state budget has increased from 23 percent in 1981-83 to 42 percent in the current two-year budget.

"So the effects of state budget cuts at the local level will be a lot more dramatic than they were in the early 1980s," said Tony Meeker of Amity, then the Senate Republican leader and now an investment banker.

Heard, who now is principal at Falls City Elementary School, said the Legislature appears to have given up on major tax restructuring.

"Candidates for the Oregon Legislature always say they are going to work for tax relief and redesign of Oregon's tax structure," said Heard, who left the Legislature in 1983. "But every time I hear it, my eyes start rolling."

"They should show some courage. I think both political parties would benefit."

The Legislature struggled with sales tax proposals in 1983 and 1985. The first was ruled off the ballot by the Oregon Supreme Court, and the second was trounced by voters.

Gov. Barbara Roberts failed to persuade a special session in 1992 to refer a sales tax measure to provide money for schools. The 1993 Legislature did so, but voters again killed it.

Kitzhaber campaigned for governor in 1994 on a pledge of tax reform. But the only major proposal to surface in the past eight years has been a plan by Rep. Lane Shetterly, R-Dallas, to replace corporate income taxes with a business activity tax to even the flow of taxes.

Two decades ago, Republican Van Vliet teamed up with Democrat Peter Courtney of Salem, then a representative, for a plan that earmarked a sales tax for

schools but also imposed a cap on property taxes. Their plan went nowhere.

"What I learned about tax reform from that experience is that you can do it only in bits and pieces — not in a big-picture way," said Courtney, now a senator. "I do not care how good a policy it is, because the public won't buy it."

Van Vliet, a retired professor at Oregon State University, agrees.

"Unfortunately, when we should be dealing with our tax structure, we are in an economic upturn — and no one is interested," he said. "When you face a crisis, it is difficult to put together any reasonable plan. It's a Catch-22."

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time. And don't spend every dime; the worst may be yet to come.

"There's no easy solution," said Fred Heard, the Senate president 20 years ago. "I think Oregonians will remember the courage they see. The sun will still come up in the morning, and voters will remember the people who were straightforward." In 1982, Republican Gov. Vic Atiyeh was dealing with a Democratic-controlled Legislature. Timber, the state's dominant industry, was in collapse, losing 30,000 jobs over three years. This time, it's the high-tech industry, viewed 20 years ago as the savior of the state's economy, that's bleeding.

Then, as now, hopes were high for a quick resolution when Atiyeh called a special session in January. But the session dragged on for 43 days, with a five-day breather in the middle.

When it was over, lawmakers balanced the budget with a combination of temporary tax increases, spending cuts and accounting gimmicks — only to return twice more that year as tax collections continued to fall. The third time, lawmakers ran out of good ideas and adopted what Atiyeh now calls the best of the remaining bad ideas — raiding the surplus in the State Accident Insurance Fund, a move the courts ultimately ruled illegal.

The deficit eventually reached more \$500 million, or about 16 percent of the \$3 billion two-year general fund budget. The state's current deficit of \$830 million would have to climb to nearly \$2 billion to reach a crisis of equal proportion.

"It was an awful time," said Portland Mayor Vera Katz, who in 1982 was the House co-chairwoman of the powerful Ways and Means Committee.

Katz said the lesson of 1982 is that ideology has to take a back seat to the emergency at hand. A Republican governor was willing to work with the Democratic legislative leaders to find a balance between budget cuts and tax increases.

"They were not afraid to look at increasing taxes to balance the budget," she said.

Lawmakers did overcome their fears, at least enough to provide the needed majorities and no more.

Voting for tax increases is never popular, but it was a different political world then. The anti-tax movement was growing but had not reached the power it holds today to strike fear in elected officials.

And the bipartisan courage to compromise that Katz praises did not come easily, or overnight.

"It took a lot of weeping and wailing and gnashing of teeth to get that done," said former Sen. Rod Monroe, who is now on the Metro Council.

Another big difference is that by January 1982, lawmakers had already been dealing with the recession for almost two years. They had met in a five-day special session in August 1980 to cut aid to schools and state agency budgets. And they cut budgets further during the 1981 regular session.

That experience armed lawmakers for the bad news to come, said Rich Munn, legislative revenue officer at the time.

"They had two years of difficult times and difficult cuts," Munn said. "They had dealt with their constituents and got a lot of feedback about what was happening."

Numbers tighter today

As the special session began on Jan. 18, 1982, the shortfall was pegged at \$237 million, or 7 percent less than the amount lawmakers used to balance the 1981-83 budget.

Atiyeh initially proposed a package of spending cuts and a variety of revenue-raising ploys known as "kicking over tin cans" for cash, said Pat McCormick, who was chief of staff to then-House Speaker Hardy Myers. Those included accelerating state income tax withholding, a move that would bring in an extra \$68 million essentially by stealing it from the next budget period.

Democratic leaders proposed a one-time income tax surcharge, but Republicans balked.

More important, so did a handful of key Democrats, including Katz. The rebelling Democrats argued that it made no sense to increase income taxes, only to pay out huge sums in property tax relief.

The state's property tax relief program consumed nearly one-fifth of the budget in 1982. The program, launched in an effort to forestall an Oregon version of California's property tax-limiting Proposition 13, paid up to 30 percent of residential property taxes.

The Legislature eventually cut the property tax relief program three times in 1982 to balance the budget. It repealed the

program in 1985.

Myers, who is now attorney general, had a tough time holding his House caucus together with a slim 33-27 majority. That was a source of frustration in the Senate, where Democrats had a 22-8 advantage, because plans brought to the floor for votes failed unexpectedly and back-room negotiations dominated the action.

The potential for such fractiousness is compounded today because Republicans hold a similar 32-28 lead in the House and only a 16-14 edge in the Senate.

For Kitzhaber, the most important lesson from those long days of deadlock and disorganization is the importance of making a deal ahead of time. He says he won't call a special session without knowing where it's going.

Former Rep. Larry Campbell, who went on to become House speaker, agrees.

"Don't do it unless you've got the plan and you've got the votes," said Campbell, now a lobbyist.

But Heard, the former Senate president, said it was not possible to get to a deal before the session then, and he doubts Kitzhaber can do it now.

Bad became worse

Four weeks into the 1982 session, without a resolution in sight, word came that the March revenue forecast would be down another \$100 million.

"I think it stunned everybody when we found out it was getting that much worse that fast," McCormick said. "The air went out of the room."

Atiyeh is widely credited by lawmakers of both parties at the time for his leadership in helping forge the final compromise that included the temporary income tax surcharge, a temporary 3-cents-a-pack cigarette tax, and a cut in the property tax relief program, as well as spending cuts.

"The realization settled in, and Vic's leadership convinced a tough group of Republicans to put in a temporary tax increase," said former Rep. Tony Van Vliet, an Oregon State University political scientist and one of the Legislature's top budget experts at the time.

Those were not easy votes. Legislators who were especially vulnerable at the polls were "let off the hook," Van Vliet recalled. For example, Kitzhaber, a Democrat in his first term as a senator from conservative Douglas County, voted no on all three revenue-raising bills.

Lawmakers didn't have long to relax, however. Atiyeh called them back in June after revenues dropped \$108 million more. This time, however, the governor and legislative leaders worked out a deal ahead of time, and the Legislature approved a package of tax increases, spending cuts and a state workers' pay cut during a one-day session.

But still, the economy wasn't finished. Lawmakers returned in September to fill a new \$91 million shortfall with money from the accident insurance fund surplus and another cut in property tax relief.

The lesson here — no matter how huge the shortfall looks now, it could always grow — is not lost on Kitzhaber. He wants to leave money unspent in the budget in case revenues drop again, as they did in 1982.

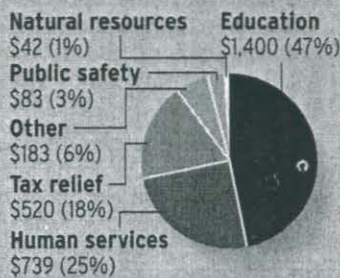
But with the alternative being painful program cuts or risky tax increases, Van Vliet says it will be extremely difficult for any lawmaker to leave money on the table.

"These guys will be like croupiers at a roulette table," he said, "pulling in chips as fast as they can."

THE BUDGET'S CHANGING SHAPE

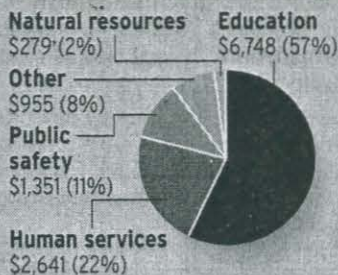
Here's a comparison of state general fund spending now and 20 years ago, the last time lawmakers met in a special session to rebalance the budget. Other than overall size, the biggest differences are that property tax relief was a major state program in 1981-83, and school support takes a larger share of the budget now.

1981-83 spending (\$ millions)



Source: Governor's office

2001-03 spending (\$ millions)

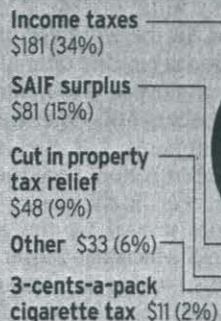


MICHAEL MODE/THE OREGONIAN

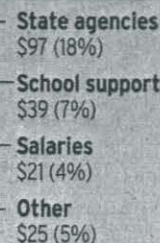
HOW THE 1982 HOLE WAS FILLED

Lawmakers met in special sessions three times in 1982 to balance the state budget as tax collections continued to fall. Here's where the money came from.

Revenues (\$ millions)



Spending cuts (\$ millions)



MICHAEL MODE/THE OREGONIAN

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THE BUDGET PICTURE

The budget: The Legislature budgeted \$12 billion in spending for 2001-03, based on a state report forecasting that amount of general fund and lottery revenues would be available.

The shortfall: State officials predicted last month that, because the recession would reduce tax collections, revenues in 2001-03 would be \$710 million less than what was budgeted. Gov. John Kitzhaber says the shortfall will be about \$830 million, partly because of increased expenses.

The response: Kitzhaber released a rebalanced budget of \$11.97 billion last week that reflects only program cuts. This week, he will release a second plan that combines cuts and tax increases. The Legislature will meet in a special session, probably in February, to produce a final spending plan.

Budget shortfall echoes '82

Lessons learned during Oregon's fiscal crisis of two decades ago could help legislators today

By **JAMES MAYER**
THE OREGONIAN

The economy is in freefall, and a gaping hole has opened in the state budget as tax collections fall far short of paying for services.

The governor calls for a special session, but with the Legislature in the hands of his political opponents, there's no agreement on what to do about it.

There's no guarantee matters won't get worse before they get better, and the primary election season is fast approaching.

That's the reality facing Democratic Gov. John Kitzhaber and the Republican-controlled Legislature as they prepare for a difficult budget-balancing special session next month.

But this picture was the same 20 years ago, the last time lawmakers met in a special session to stitch up a fraying budget. There are some important differences between then and now, but there also may be some lessons for the current crop of lawmakers. Only five current legislators — and Kitzhaber — were in the Legislature in 1982, and the rest haven't been through anything like it.

Here's a short course from two decades ago: Be prepared to compromise. If at all possible, work out a deal ahead of